United States Court of Appeals
for the Second Circuit

BRIEF FOR APPELLEE

76-7435

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

B

P/S

NO. 76-7435

WARNER-JENKINSON COMPANY,
and
H. KOHNSTAMM & COMPANY, INC.

Plaintiffs-Appellants,

v.

ALLIED CHEMICAL CORPORATION,

Defendant-Appellee.

APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK
The Honorable Marvin E. Frankel,
United States District Judge

BRIEF FOR DEFENDANT-APPELLEE ALLIED CHEMICAL

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UNITED STATES COURT OF APPEALS

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WARNER-JENKINSON COMPANY,	:	
and	:	
H. KOHNSTAMM & COMPANY, INC.,	:	
Plaintiffs-Appellants,	:	DOCKET NO. 76-7435
v.	:	
ALLIED CHEMICAL CORPORATION,	:	
Defendant-Appellee.	:	

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BRIEF FOR DEFENDANT-APPELLEE ALLIED CHEMICAL

I. COUNTERSTATEMENT OF THE ISSUES PRESENTED FOR REVIEW

1. Under the particular facts of this case, did not the District Court properly dismiss this declaratory judgment action for lack of an actual, justiciable controversy?

2. Did not the District Court properly order Warner-Jenkinson and Kohnstamm to pay royalties which they obligated themselves to pay to Allied Chemical pursuant to license agreements entered into in Court-approved settlement of earlier declaratory judgment actions?

II. COUNTERSTATEMENT OF THE CASE

A. The Nature Of The Case, The Course Of Proceedings, And Its Disposition In The Court Below

This action for a declaratory judgment and related relief with respect to two patents relating to a red food color is before this Court on appeal from an Order and Judgment (A-240) dismissing the action for lack of subject matter jurisdiction and ordering the payment of royalties due defendant-appellee Allied Chemical Corporation ("Allied Chemical") pursuant to license agreements entered into in Court-approved settlement of earlier declaratory judgment actions.

The question of subject matter jurisdiction was extensively briefed below (A-112 to A-169; A-188 to A-239). After considering those briefs and hearing the arguments of counsel, the Honorable Marvin E. Frankel, United States District Judge for the Southern District of New York, dismissed the action on the ground that, under the particular circumstances of this case, there existed no actual, justiciable controversy between the parties (A-280; A-289 to A-293; A-298 to A-301).

A dispositive factor relied upon by Judge Frankel in dismissing this action (A-279 to A-303) -- a factor ignored by plaintiffs-appellants Warner-Jenkinson Company ("Warner-Jenkinson") and H. Kohnstamm & Company, Inc.

("Kohnstamm") in their "Statement Of The Case" (PB 1-4) -- is that, as a result of two-year non-termination provisions in license agreements entered into pursuant to Court-approved settlement of earlier declaratory judgment actions instituted by Warner-Jenkinson and Kohnstamm, there was no actual, justiciable controversy between the parties. As stated by Judge Frankel (A-290 to A-292):

> "...I think the definition of a case or controversy must be applied with particular reference to the specific facts of the case.
>
> "Now, you [Warner-Jenkinson and Kohnstamm] had a case, you have had threats, it was justiciable, you brought it. You occupied the time of the Court and the energies of your adversaries and you went through and after great travail you hammered out a very limited settlement agreement which bound you for not more than two years and left within your control when you could get out from under that license provision. There had been no other threats since then. You just turn around and you decide that the price is too high, the price that you agreed to, a kind of assertion that has not the slightest appeal to a Court of law because all our contract business arises because somebody decides he didn't make as provident a contract as he would like.
>
> "You say that makes of this settled proceeding a new case or controversy before the two years are up. My strong disposition is to say it does not.
>
> * * *
>
> "... You are not going to be sued for two years. You don't have any basis whatever in your complaint or in any of your papers for that apprehension, unless it is open to you having made that settlement to just put aside the agreement before the very modest term to which you agreed and start all over again."

1. The Earlier Declaratory Judgment Actions

Warner-Jenkinson and Kohnstamm instituted earlier litigation against Allied Chemical when, on January 24, 1972, each filed a separate action for a declaratory judgment as to the validity, enforceability and infringement of Allied Chemical's patent 3,519,617. Each complaint also included a claim for alleged unfair competition. By "amended" complaints served February 8, 1972, Warner-Jenkinson and Kohnstamm broadened their declaratory judgment actions to include Allied Chemical's later-issued patent 3,640,733.* Allied Chemical counterclaimed in each action for infringement of its two patents.

The actions were ultimately consolidated for trial before the Honorable William C. Conner, United States District Judge for the Southern District of New York (A-40, ¶ 5).

Extensive discovery was taken in these earlier actions. Over a three-year period, 27 witnesses were deposed and over 30,000 pages of documents were produced. A pretrial order (A-56 to A-67) was entered by Judge Conner in January 1975, and trial was set to commence on March 10, 1975 (A-40, ¶ 6).

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* Claim 6 of patent 3,519,617 (the "'617" patent) is directed to the chemical composition of a red food color known as F.D.& C. Red No. 40 ("Red 40") and claim 7 of patent 3,640,733 (the "'733" patent) is directed to foods colored with Red 40 (A-40, ¶ 4).

Comprehensive pretrial briefs, glossaries, etc. were exchanged on February 21, 1975. Discovery had established that there was no serious issue as to Warner-Jenkinson's and Kohnstamm's infringement of Allied Chemical's two patents, and that Warner-Jenkinson and Kohnstamm had willfully and deliberately begun to manufacture and sell Red 40 after Allied Chemical declined to grant either of them a license to do so (A-41, ¶ 7).

Trial commenced on March 10, 1975. Each party summoned and had in readiness an array of fact and expert witnesses. Extensive files and exhibits were physically moved into Judge Conner's courtroom for use during trial. At the outset of trial, however, Judge Conner called counsel for the parties into his robing room, said that he had read the pretrial submissions of the parties, and initiated settlement discussions. Judge Conner then conducted a series of settlement conferences during the first two days of trial. On the second day of trial the parties agreed in principle to settle their controversy on the basis of a $200,000 payment for past infringement and a royalty of 17-1/2% (of net sales) for continued manufacture, use and sale of Red 40 (A-41, ¶ 8).

The parties negotiated detailed settlement papers over the next four-month period.* At first, Allied Chemical

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* The parties exchanged numerous drafts and, in an effort to resolve issues in controversy between the parties, an additional settlement conference was held by Judge Conner on May 9, 1975 (A-41, ¶ 9).

asked for a consent judgment of patent validity, infringement and enforceability. Warner-Jenkinson and Kohnstamm declined to enter into a consent judgment with respect to Allied Chemical's two patents but agreed to a dismissal with prejudice as to Warner-Jenkinson's and Kohnstamm's allegations of unfair competition and agreed that the license agreements, which were to be entered into in connection with the dismissal without prejudice of Warner-Jenkinson's and Kohnstamm's declaratory judgment actions, could not be terminated for two years (A-41, ¶ 9).

The bargain ultimately struck between the parties, and approved by Judge Conner,* is embodied in four documents:

1. Stipulation and Order signed by Judge Conner on July 23, 1975 (A-69 to A-70);

2. Settlement Agreement, effective as of March 1, 1975, between Allied Chemical, Kohnstamm and Warner-Jenkinson (A-72 to A-74);

3. License Agreement, effective as of March 1, 1975, between Allied Chemical and Warner-Jenkinson (A-76 to A-87); and

4. License Agreement, effective as of March 1, 1975, between Allied Chemical and Kohnstamm (A-89 to A-100).

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* Warner-Jenkinson and Kohnstamm emphasize that the previous declaratory judgment actions with respect to the validity, enforceability and infringement of Allied Chemical's two patents, were dismissed "without prejudice" by Judge Conner (PB 22-25). However, as ultimately conceded by their counsel in answer to Judge Frankel's questions, Judge Conner's stipulation and order of dismissal has to be read together with the other settlement documents, and it is certain that Judge Conner was very much aware of the entire package of settlement documents when he signed the stipulation and order of dismissal (A-295 to A-296). See pp.14-16, _infra_.

In return for a release from liability for past infringement, Warner-Jenkinson and Kohnstamm paid to Allied Chemical a lump-sum figure of $200,000 (A-73, ¶¶ 1, 2). Allied Chemical granted licenses under the '617 and '733 patents, for Warner-Jenkinson's and Kohnstamm's continued manufacture, use and sale of Red 40, at a royalty of 17-1/2% (A-73, ¶ 3; A-78, ¶ 3.1; A-91, ¶ 3.1). And Warner-Jenkinson and Kohnstamm agreed to release Allied Chemical from all liability based on their claims for alleged unfair competition (A-74, ¶ 4).

The license agreements included customary provisions for termination by Allied Chemical in the event of non-performance by Warner-Jenkinson and Kohnstamm (A-81, ¶ 4.2; A-94, ¶ 4.2). To prevent Warner-Jenkinson and Kohnstamm from returning to the Courthouse for two years, the license agreements specified that Warner-Jenkinson and Kohnstamm could not terminate their agreements for two years (A-42, ¶ 12; A-81, ¶ 4.1; A-94, ¶ 4.1). This two-year period was itself the result of negotiations among the parties.

In accord with these agreements, on July 23, 1975, Judge Conner dismissed, without prejudice, Warner-Jenkinson's and Kohnstamm's declaratory judgment actions and Allied Chemical's counterclaims with respect to the '617 and '733 patents and dismissed, with prejudice, Warner-Jenkinson's

and Kohnstamm's claims for alleged unfair competition (A-69 to A-70; A-42, ¶ 11). Because the settlement documents became effective, by their terms, as of March 1, 1975 (A-72; A-76; A-89), the two-year period will not expire until March 1, 1977.

2. The Present Declaratory Judgment Action

On June 22, 1976, almost a year before the expiration of the two-year non-termination period specified in the settlement arrangements approved by Judge Conner and while remaining as licensees under both patents in suit, Warner-Jenkinson and Kohnstamm attempted to revive the earlier litigation by commencing the declaratory judgment action now before this Court (A-4 to A-21).* Perhaps in recognition of the infirmity of their declaratory judgment claims from the standpoint of subject matter jurisdiction, Warner-Jenkinson and Kohnstamm averred that the District Court had jurisdiction over the subject matter of the action "pursuant to 28 U.S.C. §§ 1331 [Federal question], 1332 [diversity of citizenship] and 1338 [patents and unfair competition]; 28 U.S.C. §§ 2201 and 2202 [declaratory judg-

* Warner-Jenkinson's and Kohnstamm's new complaint was assigned to Judge Frankel after Judge Conner recused himself because of a potential conflict of interest (A-31, ¶ 1).

ment]; and the pendent and ancillary jurisdiction of the Court" (A-5 to A-6, ¶ 5).*

Warner-Jenkinson's and Kohnstamm's present action seeks (a) a declaratory judgment as to the validity, enforceability, and infringement of the very same Allied Chemical patents relating to Red 40 which were involved in the earlier litigation, (b) a declaratory judgment as to the validity and enforceability of the license agreements entered into in settlement of that earlier litigation, (c) a judgment directing restitution of royalties paid by Warner-Jenkinson and Kohnstamm to Allied Chemical pursuant to those license agreements, (d) a judgment that royalties deposited by Warner-Jenkinson and Kohnstamm in escrow during the pendency of this action be returned to Warner-Jenkinson and Kohnstamm upon the conclusion of this action, (e) a judgment that Allied Chemical be enjoined from instituting any action against Warner-Jenkinson and Kohnstamm or their customers, either because of Warner-Jenkinson's and Kohnstamm's deposit of royalties in escrow or because of their or their cus-

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* The absence of complete diversity of citizenship (both Kohnstamm and Allied Chemical are New York corporations, (A-59, ¶¶ 14, 15) and thus citizens of the State of New York) may explain the artificially bifurcated nature of the caption adopted by Warner-Jenkinson and Kohnstamm (see, e.g., plaintiffs' complaint (A-4) and plaintiffs-appellants' brief and appendix). The unfounded nature of Warner-Jenkinson's and Kohnstamm's prolix claims with respect to subject matter jurisdiction is detailed in Allied Chemical's memorandum in support of its Rule 12(b)(1) motion to dismiss the complaint for lack of subject matter jurisdiction (A-112 to A-154) and will not be repeated herein except to the extent necessary to confirm the propriety of Judge Frankel's dismissal of this action because of the lack of an actual, justiciable controversy between the parties.

tomers' manufacture, use, or sale of Red 40 for which royalties have been deposited in escrow, and (f) for damages and other relief said to result from Allied Chemical's alleged unfair competition in "collecting" the royalties paid by Warner-Jenkinson and Kohnstamm.

In an effort to preserve the benefits of their license agreements with Allied Chemical, Warner-Jenkinson and Kohnstamm obtained, on the same day their new complaint was filed, an _ex parte_ Order directing Allied Chemical to show cause why Warner-Jenkinson and Kohnstamm should not be authorized to deposit royalties into escrow during the pendency of this action -- without breach of their obligations to pay royalties in accordance with the settlement of the earlier litigation (A-307 to A-323). Warner-Jenkinson and Kohnstamm predicated their application for an Order to Show Cause on the fact that their quarterly royalty payments to Allied Chemical were due by June 30, 1976 (A-80, ¶ 3.5; A-93, ¶ 3.5).

Allied Chemical applied for a brief adjournment (approximately two weeks) of the return date specified in the Order to Show Cause so that appropriate opposition papers could be prepared (A-34 to A-38). A hearing on this application was held before Judge Frankel on June 25, 1976, following which it was ordered that the return date be adjourned until August 11, 1976 (A-32, ¶ 1).* In order to

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* The additional one-month delay was necessary to accommodate the schedule of counsel for Warner-Jenkinson and Kohnstamm.

deal with Warner-Jenkinson's and Kohnstamm's then imminent June 30 royalty obligations, Judge Frankel ordered that the June 30 royalties could be withheld without breach of the license agreements until decision by the District Court on the relief sought by the Order to Show Cause, but on the condition that if Allied Chemical prevailed in its opposition to the relief sought, Warner-Jenkinson and Kohnstamm would pay to Allied Chemical the royalties due June 30, together with 6% interest on said sums for the period withheld (A-32 to A-33, ¶ 2).

Allied Chemical then timely moved pursuant to Rule 12(b)(1), F.R.Civ.P., to dismiss Warner-Jenkinson's and Kohnstamm's complaint on the ground that the District Court lacked jurisdiction over the subject matter of this action (A-324 to A-326). Because of the lack of subject matter jurisdiction, and for other reasons not reached by Judge Frankel, Allied Chemical also opposed Warner-Jenkinson's and Kohnstamm's application for an order authorizing the deposit of royalties in escrow pendente lite (A-112; A-155 to A-168). The relevant facts were established by the unchallenged and uncontroverted affidavit (and exhibits) submitted by Allied Chemical (A-39 to A-111).

Allied Chemical's motion to dismiss was argued before Judge Frankel on August 11, 1976 (A-279 to A-303). Judge Frankel concluded that there existed no actual, justiciable controversy between the parties because Warner-

Jenkinson and Kohnstamm had agreed, in settlement of the earlier litigation before Judge Conner, not to renew suit for a two-year period which had not yet run (A-290 to A-293; A-298 to A-299).

On August 13, 1976 an Order and Judgment was entered granting Allied Chemical's motion to dismiss, denying Warner-Jenkinson's and Kohnstamm's application for an order authorizing the deposit of royalties in escrow pendente lite, and directing that Warner-Jenkinson and Kohnstamm pay to Allied Chemical the royalties due June 30, 1976 with 6% interest thereon (A-240).* This appeal by Warner-Jenkinson and Kohnstamm under 28 U.S.C. § 1291 followed (A-255 to A-256).

B. Counterstatement Of The Facts

Warner-Jenkinson's and Kohnstamm's "Statement Of The Facts" (PB 4-7) is conspicuous for what it omits and because it is clearly at odds with the undisputed facts established below. For example, Warner-Jenkinson and Kohnstamm suggest that the F.D.A.'s official delistment of Red 2 in early 1976 was unexpected as of the 1975 settlement of the earlier actions before Judge Conner, and contend that this delistment changed Red 40 from "a specialty color of limited

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* The direction to pay royalties was, in substance, a reiteration of Judge Frankel's interim order of June 30, 1976 (compare A-32 to A-33 with A-299 to A-301).

application" to a color of so much greater importance that the previously unobjectionable 17-1/2% royalty rate is now "economically oppressive" (PB 6-7). The facts belie these suggestions and contentions.

As early as 1971, following reports by Russian scientists that Red 2 caused harmful effects in test animals, the Food and Drug Administration announced its intention to delist Red 2. Warner-Jenkinson and Kohnstamm were well aware of the possible delistment of Red 2, and the consequences with respect to Red 40, at the time they agreed to settle the earlier litigation. Any possible doubt on this score is eradicated by the proposed findings of fact (A-128 to A-130) Warner-Jenkinson and Kohnstamm submitted to Judge Conner, less than two weeks before Warner-Jenkinson and Kohnstamm agreed to settle the earlier litigation pursuant to the 17-1/2% royalty arrangement that could not be terminated for two years.

Furthermore, the 17-1/2% royalty Warner-Jenkinson and Kohnstamm agreed to pay for a minimum of two years in settlement of the earlier litigation is not, as they allege (PB 7), excessively high or oppressive. <u>After</u> the delistment of Red 2, Hilton-Davis Chemical Co. (a division of Sterling Drug, Inc. and a competitor of Warner-Jenkinson and Kohnstamm), agreed to pay $100,000 plus the same 17-1/2% royalty to manufacture, use and sell Red 40 (A-43, ¶ 14; A-102 to A-111).

Warner-Jenkinson's and Kohnstamm's contention that Red 40 was a mere specialty color of "limited value" to them prior to the delistment of Red 2 ignores that, pursuant to the settlement agreement and license agreements resulting from settlement of the earlier declaratory judgment actions, Warner-Jenkinson and Kohnstamm paid to Allied Chemical over $500,000 for their activities <u>prior</u> to Red 2's delistment (A-38).

Warner-Jenkinson's and Kohnstamm's statements of the case and of the facts are affirmatively misleading, for example, in the manner in which they characterize the issues (PB 3, first footnote) raised by Allied Chemical's motion to dismiss for lack of subject matter jurisdiction. As stated by Allied Chemical in its supporting memorandum (A-112 to A-169) and as correctly perceived by Judge Frankel (e.g., A-280), the subject matter jurisdiction issue before the District Court was whether, under the particular circumstances of this case, there was an actual, justiciable controversy between the parties. This is so because the two-year period of repose to which Warner-Jenkinson and Kohnstamm agreed was a bargained-for exchange and an integral part of the overall settlement approved by Judge Conner in termination of the earlier litigation. Hence, even though Judge Conner's Stipulation and Order dismissed the earlier litigation with respect to Allied's two patents

without prejudice (A-69, ¶¶ 1, 2), it was done on the condition embodied in the underlying Settlement and License Agreements (A-72; A-76; A-89) that royalties be paid for a minimum of two years and that litigation would not be renewed by Warner-Jenkinson and Kohnstamm during that time. As Judge Frankel observed, and as counsel for Warner-Jenkinson and Kohnstamm conceded (A-295 to A-296):

> "THE COURT: Next March if you want to terminate, your settlement is without prejudice to your right to attack one or both of these patents or their right to an attempt to enforce them.
>
> "I don't think there is any other fair reading than that.
>
> "MR. CARR [counsel for Warner-Jenkinson and Kohnstamm]: Your Honor, the agreement talks of termination. It does not talk about litigation or the right to test validity. It talks only about termination. That means we have an obligation for two years to pay royalties. That is what it means.
>
> "THE COURT: When you say the agreement, you mean the license agreement.
>
> "MR. CARR: Yes, sir.
>
> "THE COURT: Well, all right. I am talking about the stipulation and order. All of these things have to be read together, don't they? It is the stipulation and order that has the without prejudice in there.
>
> "MR. CARR: Yes, sir.
>
> "THE COURT: You are not suggesting that Judge Conner was unaware of the whole package of settlement documents when he signed that?
>
> "MR. CARR: I would hardly --
>
> "THE COURT: He was very much aware of it.
>
> "MR. CARR: I am certain of that.

"THE COURT: He had all of that in mind. It is in light of that that he signed his name, being, I suppose, it is permissible to say [the] judicial officer on this court most familiar with these things at the moment and very familiar as you know."

As demonstrated in section III(C)(1), infra, Judge Frankel's remarks concerning the two-year prohibition against reviving the earlier litigation is fully supported by the unchallenged affidavit and exhibits before the District Court, e.g.:

"Plaintiffs [Warner-Jenkinson and Kohnstamm] ... agreed to a dismissal with prejudice as to plaintiffs' allegations of unfair competition, and agreed that the license agreements, which were to be entered into in connection with the dismissal without prejudice of plaintiffs' declaratory judgment actions, could not be terminated for two years.

* * *

"To prevent plaintiffs from promptly reinstituting their actions, the license agreements specified that Warner-Jenkinson and Kohnstamm could not terminate their obligations to pay royalties for two years" (A-41, ¶ 9; A-42, ¶ 12).

III. ARGUMENT

A. The District Court Properly Dismissed This Declaratory Judgment Action For Lack Of Jurisdiction Over The Subject Matter Because There Is No Actual, Justiciable Controversy Between The Parties

Warner-Jenkinson's and Kohnstamm's principal contention on appeal is that Judge Frankel erred in dismissing their complaint because "Lear[*] permits licensees to challenge the validity of licensed patents without prior termination of the license agreements" (PB 9; see PB 7-22). Passing, for the moment, the question of whether Lear extends to that proposition (as elaborated in section III(C)(2), infra, Lear put to rest the long-eroded doctrine of licensee estoppel but did not address the license termination question), Warner-Jenkinson's and Kohnstamm's contention ignores the factual nature of the issue now before this Court for review.

The real issue on this appeal is whether, in view of the prior litigation and the prior settlement, Judge Frankel properly held that the District Court lacked subject matter jurisdiction to entertain Warner-Jenkinson's and Kohnstamm's present complaint during the two-year period of repose which was hammered out with the approval of Judge Conner. We submit that Judge Frankel's Order and Judgment, which gave effect to that settlement by dismissing Warner-Jenkinson's and Kohnstamm's most recent complaint, is soundly bottomed on both reason and authority.

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* Lear, Inc. v. Adkins, 395 U.S. 653 (1969).

Article III, § 2 of the Constitution limits the exercise of the judicial power of the United States to actual "cases" and "controversies." As Judge Frankel correctly observed (A-289 to A-290), this threshold requirement of a justiciable controversy cuts across all the jurisdictional provisions which Warner-Jenkinson and Kohnstamm invoked as the basis for their new complaint against Allied Chemical.* And as Judge Frankel correctly held, under the particular facts of this case there can be no justiciable controversy between Warner-Jenkinson and Kohnstamm, on the one hand, and Allied Chemical, on the other, until the expiration of the two-year period of repose agreed upon in settlement of the earlier litigation.

Thus a pivotal backdrop to this appeal is that the justiciable controversy which existed between the parties in the earlier litigation was extinguished by the settlement approved by Judge Conner. As stated in W.R. Grace & Co. v. Union Carbide Corporation, 319 F.Supp. 307, 310-11 (S.D.N.Y. 1970):

> "The only evidence that a controversy exists between the parties concerning the validity and scope of the patents is a suit filed by Carbide

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* Judge Frankel's observation is fully supported by the applicable authorities. E.g., Preiser v. Newkirk, 422 U.S. 395, 401 (1975); DeFunis v. Odegaard, 416 U.S. 312, 316 (1974); North Carolina v. Rice, 404 U.S. 244, 246 (1971); Golden v. Zwickler, 394 U.S. 103, 108 (1969); Aetna Life Ins. Co. v. Haworth, 300 U.S. 227, 239-41 (1937); Lecci v. Cahn, 493 F.2d 826, 828-29 (2 Cir. 1974); Cover v. Schwartz, 133 F.2d 541, 546 (2 Cir. 1942), cert. denied, 319 U.S. 748 (1943).

in 1960 against Grace and one of its customers for infringement of the patents in question. Although such charge, coupled with commencement of a suit would normally be the basis for a federally cognizable controversy, the parties apparently intended to avoid litigation by entering into a licensing agreement. Grace is apparently attempting to resurrect the 1960 suit and controversy merely that they may serve as the bases for the present declaratory judgment action. Despite the liberal construction given to the term 'actual controversy', this Court does not view the 1960 action, to which Grace responded by entering into a licensing agreement with Carbide, as a legitimate basis for the present action. There is no evidence of letters being sent to Grace by Carbide charging infringement nor of a history of hostile litigation between the parties to reinforce the claim that a controversy does in fact exist. Cf., Broadview Chem. Corp. v. Loctite Corp., 417 F.2d 998, 1000 (2d Cir. 1969). Since there is no evidence that a current controversy exists between the parties, concerning the validity and scope of Carbide's patents, the issues raised by the instant complaint appear to be academic." (footnote omitted)

Accord, Dakota County v. Glidden, 113 U.S. 222, 225 (1885); Protective Closures Co. v. Clover Industries, Inc., 394 F.2d 809, 812-13 (2 Cir. 1968); Eagle Oil Co. v. Sinclair Prairie Oil Co., 105 F.2d 710, 713 (10 Cir. 1939).

As a result of the settlement of the earlier litigation Warner-Jenkinson and Kohnstamm became licensees under Allied Chemical's two Red 40 patents and agreed to perform their obligations under their licenses for a minimum of two years. These license agreements are still in effect. The licenses had not been breached when Warner-Jenkinson and Kohnstamm filed their new complaint on June 22, 1976, because there had been full performance by all parties up to that

time, and the next royalty payments were not due until June 30, 1976 (A-80, ¶ 3.5; A-93 ¶ 3.5). For this reason, alone, the District Court's dismissal of the complaint should be affirmed; the law is settled that a case or controversy must exist on the day the complaint was filed. E.g., American Needle & Novelty Co. v. Schuessler Knitting Mills, 379 F.2d 376, 379 (7 Cir. 1967). See, also, Preiser v. Newkirk, 422 U.S. 395, 401 (1975).

It is clear that Warner-Jenkinson and Kohnstamm intend to remain as licensees during the pendency of this action (PB 7; Complaint, A-8, ¶ 15), and have taken steps to insure that their licenses are kept alive during this renewed litigation (A-22 to A-30; A-32 to A-33; A-241 to A-246; A-307 to A-323).

Allied Chemical has adhered to the prior settlement, and intends to continue to do so. Moreover, because the licenses are still in effect, Allied Chemical cannot charge Warner-Jenkinson or Kohnstamm with infringement of either patent in suit. E.g., W.R. Grace & Co. v. Union Carbide Corporation, 319 F.Supp. 307, 312 (S.D.N.Y. 1970); MacGregor v. Westinghouse Electric & Mfg. Co., 45 F.Supp. 236, 237 (W.D.Pa. 1942), affirmed per curiam, 130 F.2d 870 (3 Cir. 1942). And Allied Chemical cannot sue Warner-Jenkinson or Kohnstamm (or their customers) for infringement of the licensed Red 40 patents unless and until the license agreements are terminated. E.g., De Forest Co. v. United States,

273 U.S. 236 (1927); Arvin Industries, Inc. v. Berns Air King Corporation, 510 F.2d 1070 (7 Cir. 1975); Levin v. Ripple Twist Mills, Inc., 416 F.Supp. 876, 879-80 (E.D.Pa. 1976).

Under all of these circumstances Judge Frankel correctly concluded that the District Court lacked jurisdiction over the subject matter of Warner-Jenkinson's and Kohnstamm's declaratory judgment action, because there was no actual, justiciable controversy between the parties.

Consistent with constitutional limitations on the exercise of judicial power, the statutory authorization for declaratory judgments (28 U.S.C. § 2201) provides:

> "In a case of actual controversy within its jurisdiction, ... any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration...."

Like all declaratory judgment plaintiffs, Warner-Jenkinson and Kohnstamm, upon being challenged, had the burden of establishing that they met the "actual controversy" requirement of 28 U.S.C. § 2201. E.g., McNutt v. General Motors &c. Corp., 298 U.S. 178, 189 (1936); Central Mexico Light & Power Co. v. Munch, 116 F.2d 85, 87 (2 Cir. 1940). As Judge Frankel correctly observed, whether a plaintiff satisfies that burden must be determined on a case by case basis. Wembley, Inc. v. Superba Cravats, Inc., 315 F.2d 87, 89 (2 Cir. 1963).

This Court has made it plain in connection with declaratory judgment suits relating to patents that, in

order for there to be the requisite "controversy," there must have been a charge of infringement or, at least, there must be some reasonable apprehension of suit for infringement. E.g., Dr. Beck & Co. G.M.B.H. v. General Electric Company, 317 F.2d 538, 539 (2 Cir. 1963). Accord, Blessings Corporation v. Altman, 373 F.Supp. 802, 805 (S.D.N.Y. 1974). Warner-Jenkinson's and Kohnstamm's latest complaint (A-4 to A-21) does not, and cannot, aver that Allied Chemical has, at any time subsequent to the settlement of the prior litigation, renewed its charge of infringement or otherwise created any apprehension of suit for infringement. As found by Judge Frankel (A-289; A-291 to A-292):

> "The question is, if I find on the theories that have been briefed by [counsel for Allied Chemical]... that there is not the requisite case or controversy because the settlement agreement at least for the two years of its term cuts off any reality in these threats that once were made, if I find that, I believe that none of your alternative grounds for jurisdiction would revive your case. But, if you think I am wrong in that, I want you to advise me of that fact.
>
> * * *
>
> "[COUNSEL FOR WARNER-JENKINSON & KOHNSTAMM]: Your Honor, reasonable apprehension is what I believe is required. Reasonable apprehension that the plaintiff will be sued. Not a threat, but reasonable apprehension.
>
> "THE COURT: You are not going to be sued for two years. You don't have any basis whatever in your complaint or in any of your papers for that apprehension, unless it is open to you having made that settlement to just put aside the agreement before the very modest term to which you agreed and start all over again."

Warner-Jenkinson and Kohnstamm assert (PB 6-7) that the government's delistment of Red 2 somehow makes the royalty rate to which they agreed "oppressive," thereby entitling them to re-open this settled matter. But Warner-Jenkinson and Kohnstamm were alerted to the possibility of Red 2's demise well in advance of the settlement, and they knew well what impact this would have on their use of Red 40 (supra, pp. 12-14). Moreover, Warner-Jenkinson's and Kohnstamm's averments (Complaint, A-9 to A-10, ¶ 17) -- that the 17-1/2% royalty is a "restraint of trade" and that Allied Chemical's "collection" of these "economically oppressive" royalties constitutes misuse of patent rights and unfair competition -- are unsound as a matter of law.*

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* As stated, for example, in W. L. Gore & Associates, Inc. v. Carlisle Corp., 529 F.2d 614, 623 (3 Cir. 1976), where the patentee had sought a 30% royalty, far higher than the royalty provision of the judicially-sanctioned license agreements between Warner-Jenkinson and Kohnstamm and Allied Chemical:

> "The general rule is that, absent any overriding unlawful conduct, 'A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly.' Brulotte v. Thys Co., 379 U.S. 29, 33, 85 S.Ct. 176, 179, 13 L.Ed.2d 99 (1964); LaSalle Street Press, Inc. v. McCormick & Henderson, Inc., 445 F.2d 84, 95 (7th Cir. 1971); Carter-Wallace, Inc. v. United States, 449 F.2d 1374, 1383, 196 Ct.Cl. 35 (1971)."

Even if the delistment of Red 2 took Warner-Jenkinson and Kohnstamm by surprise (which it did not), [illegible]is alleged "changed circumstance" is no ground to reopen a settled controversy. As the Court below declared (A-291):

> "You [Warner-Jenkinson and [illegible]hnstamm] just turn around and you decide that the price is too high, the price that you agreed to, a kind of assertion that has not the slightest appeal to a court of law because all our contract business arises because somebody decides he didn't make as provident a contract as he would like."

The law has long favored the settlement of litigations, including cases in which the validity of a patent is challenged. E.g., Williams v. First National Bank, 216 U.S. 582, 595 (1910); Duplan Corp. v. Deering Milliken, Inc., 540 F.2d 1215 (4 Cir. 1976); Pfizer Inc. v. Lord, 456 F.2d 532, 543 (8 Cir. 1972), cert. denied, 406 U.S. 976 (1972); Moses-Ecco Company v. Roscoe-Ajax Corporation, 320 F.2d 685, [illegible] (D.C. Cir. 1963). To allow settlements to be re-opened, as Warner-Jenkinson and Kohnstamm urge, would not only frustrate this policy favoring settlement, but would also place yet another burden on the already crowded dockets of the Federal Courts. The Court below clearly acted within its permissible discretion when it dismissed Warner-Jenkinson's and Kohnstamm's latest declaratory judgment complaint, thus giving effect to the well established policies favoring settlement and judicial economy. Public Affairs Press v. Rickover, 369 U.S. 111, 112 (1962); Dr. Beck & Co. G.M.B.H. v. General Electric Company, 317 F.2d 538, 539 (2 Cir. 1963).

Warner-Jenkinson and Kohnstamm rely on _Lear_ as authority to allow them to throw over the prior settlement and to challenge the validity of Allied Chemical's Red 40 patents before the two-year period has expired (PB 7-10). But in _Lear_ there was no prior litigation and settlement as there is here. Moreover, nothing in the Supreme Court's decision in _Lear_ precludes a Court from giving effect to the settlement of an earlier litigation in which the validity of a patent was challenged. On the contrary, Federal Court decisions since _Lear_ confirm that the policy of the law favoring settlement outweighs even that enunciated in _Lear_. For example, in _Blonder-Tongue_ v. _University Foundation_, 402 U.S. 313, 334 (1971), the Supreme Court expressly recognized that settlement has continued vitality after _Lear_ and, in _Wallace Clark & Co., Inc._ v. _Acheson Indus., Inc._, 532 F.2d 846, 849 (2 Cir. 1976), _cert. denied_, ___ U.S. ___, 44 U.S.L.W. 3659 (U.S. May 19, 1976), this Court noted that the policies underlying _Lear_ are not absolute, and are sometimes "outweighed, as Judge Weinfeld emphasized, by the threats to enforcement of _valid_ patents and proliferation of expensive and time consuming litigation" (footnote omitted, emphasis added).

As recently stated by the Court of Appeals for the Sixth Circuit, in _Aro Corp._ v. _Allied Witan Co._, 531 F.2d 1368, 1372-73 (6 Cir. 1976), _cert. denied_, ___ U.S. ___, 45 U.S.L.W. 3253 (U.S. Oct. 4, 1976):

"Agreements settling litigation are solemn undertakings, invoking a duty upon the involved lawyers, as officers of the court, to make every reasonable effort to see that the agreed terms are fully and timely carried out. Public policy strongly favors settlement of disputes without litigation. Settlement is of particular value in patent litigation, the nature of which is often inordinately complex and time consuming. Settlement agreements should therefore be upheld whenever equitable and policy considerations so permit. By such agreements are the burdens of trial spared to the parties, to other litigants waiting their turn before over-burdened courts, and to the citizens whose taxes support the latter. An amicable compromise provides the more speedy and reasonable remedy for the dispute. D. H. Overmeyer Co. v. Loflin, 440 F.2d 1213 (5th Cir. 1971).

* * *

"Whatever boon Lear may have provided those who take licenses under certain conditions, it cannot be interpreted so broadly as to condone a kind of gamesmanship, wherein an alleged infringer, after employing the judicial system for months of discovery, negotiation and sparring, abandons its challenge to validity, executes a license in settlement, and then repudiates the license and seeks to start the fight all over again in the courts."

To the same effect is the decision of the Court of Appeals for the Seventh Circuit in Ransburg Electro-Coating Corp. v. Spiller & Spiller, Inc., 489 F.2d 974, 978 (7 Cir. 1973):

"Although the federal patent policy prevails over 'the technical requirements of contract doctrine' (395 U.S. at 670, 89 S.Ct. at 1911), we believe that such policy must occupy a subsidiary position to the fundamental policy favoring the expedient and orderly settlement of disputes and the fostering of judicial economy. To allow a subversion of the deeply instilled policy of settlement of legitimate dis-

> putes by applying the federal patent policy as enunciated in Lear would effectively strip good faith settlements of any meaning. The vehicle of settlement would be a useless item if contracts, such as the one here, were subject to invalidation after they were consummated. We think the federal patent policy should not be carried so far."

Warner-Jenkinson and Kohnstamm ignore this array of persuasive authorities and instead rely (PB 10-22) on decisions in which there was no prior litigation which had been concluded by a Court-endorsed settlement agreement. As we detail in Section III(C)(2), infra, Warner-Jenkinson's and Kohnstamm's reliance on these decisions is manifestly unsound; these decisions do not bear on the question of whether a Court-approved settlement should be enforced against parties who had a full and fair opportunity to challenge validity, but elected to settle during trial.

B. The District Court Properly Ordered Warner-Jenkinson And Kohnstamm To Pay Royalties Due Allied Chemical Pursuant To License Agreements Entered Into In Court-Approved Settlement Of Earlier Declaratory Judgment Actions

Warner-Jenkinson and Kohnstamm challenge the power of the District Court to order them to pay royalties to Allied Chemical for the agreed-upon two-year period called for by the March 1, 1975 Settlement and License Agreements (A-72; A-76; A-89). In particular, Warner-Jenkinson and Kohnstamm contend (PB 32-35) that Judge Frankel lacked the

"jurisdictional power" to direct them, by his Order and Judgment of August 13, 1976 (A-240, ¶ 3), to pay to Allied Chemical the royalties due June 30, 1976, with 6% interest thereon.*

This contention is without merit. The royalty obligations Warner-Jenkinson and Kohnstamm seek to avoid were undertaken in settlement of the earlier litigation, with the endorsement of a District Court Judge of substantial experience in patent matters (A-41 tc A-42; A-295 to A-296). It has been held, in this Circuit and elsewhere, that a Court has inherent power to enforce an agreement which settled litigation pending before it, particularly where, as here, the settlement was approved by that Court. E.g., Aro Corp. v. Allied Witan Co., supra, 531 F.2d at 1371:

> "It is well established that courts retain the inherent power to enforce agreements entered into in settlement of litigation pending before them." (citations omitted)

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* Warner-Jenkinson and Kohnstamm sought and obtained an Order from Judge Frankel permitting them to withhold the royalty payments due Allied Chemical on June 30, 1976, without committing a breach of the license agreements, until the Judge ruled on their Order To Show Cause, supra, pp. 10-11. Having sought such an Order suspending their contractual obligations, Warner-Jenkinson and Kohnstamm are not in a position to question the fairness of Judge Frankel's Order and Judgment of August 13, 1976, specifically enforcing those contractual obligations.

Apposite, also, are Meetings & Expositions, Inc. v. Tandy Corporation, 490 F.2d 714, 717 (2 Cir. 1974); Kelly v. Greer, 365 F.2d 669 (3 Cir. 1966), cert. denied, 385 U.S. 1035 (1967); Cummins Diesel Michigan, Inc. v. The Falcon, 305 F.2d 721, 723 (7 Cir. 1962); Walther & CIE v. U.S. Fidelity & Guaranty Company, 397 F.Supp. 937, 946 (M.D.Pa. 1975); and Mungin v. Calmar Steamship Corporation, 342 F.Supp. 484, 485 (D.Md. 1972).

In Aro, as here, an earlier patent infringement action had been settled on the basis of a dismissal without prejudice and an agreement by the accused infringer to accept a license. When the licensee repudiated the settlement, the patent owner moved for specific performance of the settlement agreement in the District Court where the settlement had been entered. Aro Corporation v. Allied Witan Company, 65 F.R.D. 513 (N.D.Ohio 1975). The motion was opposed on the ground that the District Court lacked jurisdiction over what was asserted to be essentially a contract matter (the license), because the parties were not of diverse citizenship. The District Court rejected the argument, stating (65 F.R.D. at 514):

> "The threshold issue raised by plaintiff's motion is whether there exists a jurisdictional basis for the Court to consider any breach of the settlement agreement. In the Court's view, jurisdiction rests upon the same footing as when the case began in 1971 since federal courts have consistently exercised their inherent powers to enforce agreements settling cases in which the court originally had jurisdiction. All States Investors, Inc. v. Bankers Bond Co., 343 F.2d 618, 624 (6 Cir. 1965); Cummins Diesel Michigan, Inc.

> v. The Falcon, 305 F.2d 721, 723 (7th Cir. 1962); L. M. Leathers' Sons v. Goldman, 252 F.2d 188 (6th Cir. 1958). These decisions rest upon strong policy arguments favoring settlement of disputes. To take the defendant's position that the present motion to reinstate the case for alleged failure to comply with the terms of the settlement agreement is a mere contract dispute is to close one's eyes to the reason the agreement was formed. The agreement in question came into existence not in the free market place but in response to pending litigation in a federal court. It is not understating the issue to say that without the lawsuit, the agreement might never have come to pass. Therefore, the contract entered into between the parties cannot be viewed independently of the original suit; its formation was an outgrowth of this case."

The District Court then proceeded to order specific performance of the license agreement (65 F.R.D. at 515), and that decision was affirmed by the Court of Appeals for the Sixth Circuit, Aro Corp. v. Allied Witan Co., supra, 531 F.2d 1368.

To similar effect is this Court's earlier decision in Meetings & Expositions, Inc. v. Tandy Corporation, supra, where this Court reversed a District Court order dismissing for lack of personal jurisdiction an action in which enforcement of a settlement agreement was sought. The settlement agreement had been entered into with the assistance of the District Court (490 F.2d at 715-716). In remanding the case to the District Court for summary enforcement proceedings, this Court said (490 F.2d at 717):

> "A district court has the power to enforce summarily, on motion, a settlement agreement reached in a case that was pending before it. J. Kahn & Co. v. Clark, 178 F.2d 111 (5 Cir. 1949); E.L. "Bunch" Hullett, Inc. v. Universal C.I.T. Credit Corp., 259 F.2d 685, 688 (10 Cir. 1958); Cia Anon

Venezolana de Navegacion v. Harris, 374 F.2d 33 (5 Cir. 1967); Autera v. Robinson, 136 U.S. App. D.C. 216, 419 F.2d 1197 (1969); Beirne v. Fitch, 167 F.Supp. 652, 654 (S.D.N.Y. 1958)." (footnote omitted)

The Tandy decision went on to state that the District Court had the duty to enforce a settlement agreement, especially one which it had approved (490 F.2d at 717). This is consistent with earlier decisions reaching back to May v. Le Claire, 78 U.S. (11 Wall.) 217, 228 (1870):

> "It is the duty of a Court of equity to uphold such [a settlement] agreement, to protect and enforce the rights of both parties under it, and to carry it out as far as the facts, which subsequently occurred, and the settled principles of our jurisprudence, will permit."

Apposite, also, are Hennessy v. Bacon, 137 U.S. 78, 85 (1890); and All States Investors, Inc. v. Bankers Bond Company, 343 F.2d 618, 624 (6 Cir. 1965), cert. denied, 382 U.S. 830 (1965). See also Pyle v. Wolf Corporation, 354 F.Supp. 346, 360 (D.Ore. 1972):

> "As far as the Court can determine, in all cases where valid compromises have been determined to exist they have been specifically enforced. ... Accordingly, the Court concludes that this contract should be enforced according to its terms."

The authorities which Warner-Jenkinson and Kohnstamm cite in support of their contention that the District Court lacked "jurisdictional power" (PB 33-35) are not in point. None relates to enforcement of a settlement agreement resulting from prior litigation. It is this settlement agreement, in the earlier District Court actions, that gave Judge Frankel the "jurisdictional power" (and duty) to order enforcement. The lone decision cited by Warner-Jenkinson and Kohnstamm in

which a settlement agreement was at all involved, E.K. Carey Drilling Co. v. Murphy, 113 F.Supp. 226 (D.Colo. 1953), related to the effect of the agreement upon jurisdiction over a third party complaint, where diversity jurisdiction had been destroyed by the settlement. Enforcement of the settlement agreement was not being sought in that case and the remaining authorities cited by Warner-Jenkinson and Kohnstamm do not involve settlement agreements in any way.*

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* Mail Company v. Flanders, 79 U.S. (12 Wall.) 130 (1870), was an action to prevent the sale at auction of property captured in Confederate territory during the Civil War.

In Stickney v. Wilt, 90 U.S. (23 Wall.) 150 (1874), at issue was the jurisdiction of a Circuit Court to review proceedings under the Bankruptcy Act.

Burdett v. Doty, 38 Fed. 491 (C.C.E.D. Mich. 1889) was an action in replevin which was dismissed for failure of the amount in controversy to exceed the minimum jurisdictional amount.

In Musher Foundation v. Alba Trading Co., 127 F.2d 9 (2 Cir. 1942), cert. denied, 317 U.S. 641 (1942), this Court held that an unfair competition claim based upon a common law trademark was properly dismissed for lack of subject matter jurisdiction.

Coleman v. Hudson River Bridge Co., 6 Fed. Cas. 62, No. 2,983 (C.C.N.D.N.Y. 1862), affirmed by an equally divided Court, sub nom. Albany Bridge Case, 69 U.S. (2 Wall.) 403 (1864), deals with the availability of a provisional injunction pending appeal in an action to prevent the building of a bridge across the Hudson River.

In summary, these authorities are legally and factually remote from the enforcement of a settlement agreement resulting from prior litigation.

Warner-Jenkinson and Kohnstamm do not question the jurisdiction of the District Court in the earlier actions which they initiated on January 24, 1972 and which led to the settlement and license agreements before this Court. To the contrary, they invoked (and properly so) the District Court's jurisdiction over their earlier actions and Judge Conner found (properly so) that the District Court had subject matter jurisdiction over those earlier actions (A-58, ¶¶ 10-12). We therefore urge this Court to follow the Aro and Tandy decisions and to affirm Judge Frankel's enforcement of the two-year obligation to pay royalties, as agreed to in connection with the Court-approved settlement of the earlier litigation. For the same reasons, we urge this Court to order that the royalties due on September 30, 1976, which were deposited with the District Court pursuant to the Consent Order entered by this Court on September 24, 1976, be paid over forthwith to Allied Chemical, with 6% interest on said sums for the period withheld (the interest specified by Judge Frankel as to the royalties due on June 30, 1976).

C. Warner-Jenkinson's And Kohnstamm's Remaining Contentions Are Not Ripe For Review; In Any Event, They Are Without Merit

1. Evidentiary Hearing

It is unnecessary for this Court to reach Warner-Jenkinson's and Kohnstamm's contention that "the District Court erred in interpreting the agreements on this motion [to dismiss for lack of subject matter jurisdiction] without taking evidence" (PB 3). Neither Warner-Jenkinson nor Kohnstamm objected to this procedure or requested such an evidentiary hearing. In any event, the contention is without merit because there was no conflict in the facts established before the District Court.

As held in the frequently cited opinion of Gibbs v. Buck, 307 U.S. 66, 71-72 (1939), the mode of determining subject matter jurisdiction is left to the discretion of the trial court. A District Court may, in its discretion, determine issues of fact as to jurisdiction by receiving and weighing affidavits. E.g., Broadstone Realty Corporation v. Evans, 213 F. Supp. 261, 266 (S.D.N.Y. 1962). Warner-Jenkinson's and Kohnstamm's failure to make any timely objection to Judge Frankel's reliance on the unchallenged affidavit and exhibits (A-39 to A-111) constitutes a waiver, Hertz v. Graham, 292 F.2d 443, 447-448 (2 Cir. 1961), cert. denied, 368 U.S. 929 (1961).

Warner-Jenkinson and Kohnstamm neither challenged nor sought to controvert the undisputed facts established by the affidavit and exhibits before the District Court, and they never submitted any counter affidavits or exhibits. Thus it is unchallenged that (A-41 to A-42):

> "9. ... At first, [defendant] Allied Chemical asked for a consent judgment. Plaintiffs [Warner-Jenkinson and Kohnstamm] declined to enter into a consent judgment with respect to defendant's two patents but agreed to a dismissal with prejudice as to plaintiffs' allegations of unfair competition, and agreed that the license agreements, which were to be entered into in connection with the dismissal without prejudice of plaintiffs' declaratory judgment actions, could not be terminated for two years.
>
> "10. The bargain ultimately struck between the parties is embodied in four documents:
>
> * * *
>
> "11. In accord with these agreements, on July 23, 1975, Judge Conner dismissed, without prejudice, Warner-Jenkinson's and Kohnstamm's declaratory judgment actions and Allied Chemical's counterclaims with respect to the '617 and '733 patents, and dismissed, with prejudice, Warner-Jenkinson's and Kohnstamm's claims for alleged unfair competition.
>
> "12. The license agreements included customary provisions for termination by Allied Chemical in the event of non-performance by Warner-Jenkinson and Kohnstamm. To prevent plaintiffs from promptly reinstituting their actions, the license agreements specified that Warner-Jenkinson and Kohnstamm could not terminate their obligations to pay royalties for two years."

Furthermore, the non-termination clauses, as specified in Article IV ("TERMINATION") of the License Agreements, were before the District Court as Exhibits 6 and 7 (A-81 to A-82;

A-94 to A-95), and counsel for Warner-Jenkinson and Kohnstamm agreed with Judge Frankel that Judge Conner had in mind the entire package of settlement papers, including the License Agreements which specified non-termination for two years, when he signed the Stipulation and Order of Dismissal (A-295 to A-296), <u>supra</u>, pp. 14-16.

There was no need for an evidentiary hearing. Warner-Jenkinson and Kohnstamm did not seek one. They did not object to the District Court's resolving the issues before it without such a hearing. They should not now be heard to complain.

2. <u>Termination</u>

Warner-Jenkinson's and Kohnstamm's contention that "the District Court erred in holding that, as a matter of law, there could be no case of actual controversy in view of the non-terminated license agreement" (PB 22) mischaracterizes the District Court's holding (which rests on the particular <u>facts</u> of this case) and invites this Court to address a broad and complex issue that is not yet ripe for review. In the particular circumstances of this case, there is no "actual controversy" between the parties.

Judge Frankel repeatedly stated during oral argument on the motion to dismiss that the District Court's decision was based on the "peculiar" or "particular" facts of this specific case; notably, Judge Frankel relied heavily

on the fact that there was not, and could not be, any apprehension of a suit for infringement for at least two years because Allied Chemical could not terminate the License Agreements for the lives of the patents and appellants could not terminate the agreements during the two-year non-termination period agreed upon in settlement of the earlier litigation (A-280; A-289 to A-292).

Judge Frankel's reliance on the specific facts of this case is firmly bottomed on the unchallenged affidavit and exhibits (A-41 to A-42; A-78, ¶ 2.2; A-91, ¶ 2.2; A-81 to A-82; A-94 to A-95) and is fully supported by the applicable authorities. As noted by this Court in Wembley, Inc. v. Superba Cravats, Inc., 315 F.2d 87, 89 (2 Cir. 1963), when affirming the dismissal of an action for a declaratory judgment of invalidity and noninfringement of a patent:

> "The Supreme Court has stated that the familiar distinction between concrete and substantial controversies, which are justiciable, and hypothetical, abstract or academic ones, which are not, is one of degree, to be explored on a case by case basis." (emphasis added, citations omitted)

Warner-Jenkinson and Kohnstamm further mischaracterize the basis for Judge Frankel's decision when they contend that (PB 10-11):

> "In the present case, the District Court relied exclusively on the Thiokol[*] cases as authority for its holding that a licensee must

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* In Thiokol Chemical Corp. v. Burlington Industries, Inc., 448 F.2d 1328 (3 Cir. 1971), cert. denied, 404 U.S. 1019 (1972), the Court of Appeals for the Third Circuit affirmed the dismissal of a declaratory judgment action brought by a licensee who sought to have the licensed patent declared invalid and not infringed. The dismissal was based on the ground that the licensee had not terminated the license agreement.

terminate the license agreement before he can challenge the validity of the licensed patent."

As Judge Frankel made clear, when counsel for Warner-Jenkinson and Kohnstamm sought to pin the District Court's decision to the Thiokol decisions, the decision below turned on the specific facts of this case -- particularly the two-year non-termination clause agreed upon in settlement of the earlier litigation before Judge Conner (A-292 to A-293):

> "[COUNSEL FOR WARNER-JENKINSON & KOHNSTAMM]: But your Honor's ruling about to be, I gather, is that we must terminate first. This is the Thiokol reason.
>
> "THE COURT: Yes, it seems to me specially where you have been so much of a burden on the resources of the court and your adversary and you make so limited an arrangement for peace which quells your apprehension for two years. You have no apprehension whatever. Whenever you are going to have any apprehension it will be because you do something that is within your control.
>
> "Now, viewing all those circumstances, I say, you ought not to be allowed to say that is all it mellowed, that settlement arrangement. We are now going back to the apprehension that we choose to have because we choose to throw over this agreement and now we want to start the suit again.
>
> "It seems to me to be so grossly unfair that you should not be allowed to revive those ancient threats as a basis for seeking a declaration of your rights under the patents."

The propriety or impropriety of the Thiokol doctrine is, we submit, not properly before the Court on this appeal. We point out, however, that Warner-Jenkinson's and Kohnstamm's lengthy discussion (PB 10-22) of Thiokol and

related decisions is unsound; their discussion totally ignores the grossly inequitable results that necessarily flow from their "heads I win - tails you lose" proposition,* and virtually ignores that the Thiokol reasoning was specifically endorsed as persuasive by the Court for the Southern District of New York in W.R. Grace & Co. v. Union Carbide Corporation, 319 F. Supp. 307, 313 (S.D.N.Y. 1970):

> "[T]his Court is persuaded by the reasoning in Thiokol, supra, especially in light of the decisional history and purpose of extending the declaratory judgment remedy to alleged patent infringers. Carbide is obviously unable to charge Grace or its customers with infringement and thereby force them to accept a license on a patent of questionable validity since Grace already is a licensee and apparently intends to remain such. Thus, any purported interest by Grace in the validity of the patent would appear to be academic." (footnote omitted)

Warner-Jenkinson and Kohnstamm intend to remain as licensees during the pendency of this action (p. 20 supra). In substance (A-291 to A-293), they are merely asking for an advisory opinion that the royalty they agreed to pay for a limited period in settlement of the earlier litigation is too high. As in Grace, supra, appellants' interest in Allied Chemical's patents is "academic"

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* As detailed in Section III(C)(3), infra, Warner-Jenkinson's and Kohnstamm's contention, that they can litigate the validity of the patents in suit without terminating the License Agreements and while paying royalties into escrow, would force Allied Chemical to the cost of litigation while denying to Allied Chemical the benefit of the royalty payments during a period in which appellants enjoyed the competitive advantages of being licensed, and would deny Allied Chemical its statutory rights to an injunction and damages adequate to compensate for the infringements (35 U.S.C. §§ 283, 284), if it eventually prevails in what would necessarily be a costly, time-consuming and burdensome lawsuit.

and, as in Grace, the District Court lacks subject matter jurisdiction because of the absence of a justiciable controversy.*

Warner-Jenkinson and Kohnstamm seek to avoid the Thiokol decisions by reliance on Hanes, PPG Industries, American Sterilizer, Atlas Chemical, Beckman, Milton Roy, Dahlgren, Bahamas Paper, Medtronic and JFD Electronics (PB 10-22).** Appellants' reliance on these decisions is misplaced for the dispositive reason that none dealt with a prior litigation that had been concluded by a Court-approved settlement agreement -- let alone a settlement agreement that included a Court-endorsed prohibition against further litigation for a limited period of time. Thus the authorities relied upon so heavily by appellants do not address the question now before this Court for review.

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* Warner-Jenkinson and Kohnstamm seek, also, a declaratory judgment that "as a consequence of the invalidity of the patents" the License Agreements entered into in settlement of the earlier litigation are void and unenforceable (Complaint, Prayer for Relief, ¶ B, A-12). Accordingly, the lack of a justiciable controversy with respect to the validity of Allied Chemical's patents also forecloses subject matter jurisdiction as to a declaratory judgment regarding the License Agreements.

** Hanes Corp. v. Millard, 531 F.2d 585 (D.C.Cir. 1976); PPG Industries, Inc. v. Westwood Chemical, Inc., 530 F.2d 700 (6 Cir. 1976), cert. denied, ___ U.S. ___, 45 U.S.L.W. 3250 (U.S. Oct. 4, 1976); American Sterilizer Co. v. Sybron Corp., 526 F.2d 542 (3 Cir. 1975); Atlas Chemical Industries, Inc. v. Moraine Products, 509 F.2d 1 (6 Cir. 1974); Beckman Instruments, Inc. v. Technical Develop. Corp., 433 F.2d 55 (7 Cir. 1970), cert. denied, 401 U.S. 976 (1971); Milton Roy Co. v. Bausch & Lomb Inc., 418 F.Supp. 975 (D. Del. 1976); Dahlgren Manufacturing Co. v. Harris Corporation, 399 F.Supp. 1253 (N.D. Tex. 1975); Bahamas Paper Co. v. Imperial Packaging Corp., 328 F. Supp. 158 (S.D.N.Y. 1971); Medtronic, Inc. v. American Optical Corporation, 327 F. Supp. 1327 (D. Minn. 1971); and JFD Electronics Corp. v. Channel Master Corp., 229 F. Supp. 514 (S.D.N.Y. 1964).

Moreover, in contrast to the present situation, in _Hanes_, _American Sterilizer_, _Medtronic_ and _JFD Electronics_ there was a justiciable controversy concerning the question of whether _new_ and _different_ products and processes were _infringements_ or were within the scope of preexisting license agreements. There is no such controversy here because Warner-Jenkinson's and Kohnstamm's earlier declaratory judgment actions and their present declaratory judgment action are both directed to the _same_ product (Red 40). The License Agreements specifically define "Licensed Food Colors" as Red 40 (A-77, ¶ 1.1; A-90, ¶ 1.1) and grant licenses under the two patents in suit "to manufacture, to use and to sell ... Licensed Food Colors" (A-78 and A-91, ¶ 2.1). Thus appellants' product (Red 40) is clearly covered by the existing License Agreements.

The _Hanes_ Court noted that if the licensee's product was clearly within the scope of the license, as is the case here, "it might well be argued" that the Court lacked subject matter jurisdiction (531 F.2d at 595 n.8). The question of the lack of a "justiciable controversy" as to the new process because of non-termination of the license agreement was not questioned in _American Sterilizer_ and, unlike here, diversity jurisdiction was apparently present with respect to the suit on the license agreement (Count

III) (526 F.2d at 544 n.3, 549 n.13).* The decision in Medtronic rested importantly on the facts that (a) a justiciable controversy was created by threats that the new product infringed the licensed patent, and (b) the Court's jurisdiction was supported by diversity of citizenship (327 F.Supp. at 1331, 1333-34). JFD Electronics also involved a threat of infringement; as specifically pointed out in W.R. Grace & Co. v. Union Carbide Corporation, 319 F.Supp. 307, 312 (S.D.N.Y. 1970), in holding that the Court lacked subject matter jurisdiction because of the licensee's decision not to terminate the license agreement prior to commencement of the declaratory judgment action:

> "One significant difference between [JFD Electronics] and the instant suit is that in JFD, supra, there was a clear charge of infringement against the licensee by the patentee."**

* The lack of diversity jurisdiction, "arising under" jurisdiction, pendent jurisdiction, and ancillary jurisdiction for Warner-Jenkinson's and Kohnstamm's present complaint was detailed in Sections II(B)-(C) of Allied Chemical's memorandum below in support of its motion to dismiss (A-140 to A-154) and need not be repeated here in light of appellants' election not to raise any of these issues on appeal.

** Perhaps mindful of this distinction (the absence of any charge of infringement after settlement of the earlier litigation) Warner-Jenkinson and Kohnstamm contend that (PB 7) "Allied has stated that it would sue Warner-Jenkinson and Kohnstamm for infringement if they were to terminate their license agreements and continue to make F.D.&C. Red No. 40 [A-279, 286]." This is a reference to remarks made by counsel during oral argument on the motion to dismiss, in answer to Judge Frankel's questions (A-286), and does not alter the fact that Allied Chemical has not made any post-settlement charge of infringement and neither Warner-Jenkinson nor Kohnstamm can be under any apprehension of suit in the circumstances of this case. Even if such post-complaint remarks of counsel were a charge of infringement (and they were not), such remarks do not alter the Court's lack of jurisdiction over the subject matter. American Needle & Novelty Co. v. Schuessler Knitting Mills, 379 F.2d 376, 379 (7 Cir. 1967).

The question of the existence of an actual, justiciable controversy was not even addressed by the Court in the PPG, Atlas and Bahamas Paper decisions; no question was raised with respect to subject matter jurisdiction in any of these actions. As noted in Arvin Industries, Inc. v. Berns Air King Corporation, 510 F.2d 1070, 1074n (7 Cir. 1975), "in [Beckman] jurisdiction was not questioned"; in Arvin, where jurisdiction was challenged, the action was dismissed for lack of jurisdiction. Dahlgren, the Northern District of Texas opinion relied upon by Warner-Jenkinson and Kohnstamm, is completely beside the point. That was a state court action, removed to the Federal Court on the ground of diversity, and the declaratory judgment prayer was raised as a compulsory counterclaim.

Milton Roy mis-applied the dictum in American Steril: -, and involved circumstances in which an actual controversy as to the scope of the license agreement existed and was being litigated in both state and Federal Courts.

It is clear that the two-year non-termination provision agreed upon in settlement of the earlier litigation was to prevent that litigation from being revived for two years, pp. 6-8, 14-16, supra. Warner-Jenkinson and Kohnstamm seek to avoid the plain consequences of their settlement agreement by emphasizing that the prior actions were dismissed by Judge Conner "without prejudice." Judge Frankel properly rejected this contention in light of: the

unchallenged purpose of the non-termination provision (pp. 34-36, _supra_); and the fact that Judge Conner certainly had in mind all of the settlement papers when he signed the Stipulation and Order of dismissal (pp. 14-16) -- and enforced Judge Conner's Order in accord with its only reasonable interpretation. _Brunswick Corporation_ v. _Chrysler Corporation_, 408 F.2d 335 (7 Cir. 1969).

Dismissal of Warner-Jenkinson's and Kohnstamm's complaint is in no way precluded by the decision of the Supreme Court in _Lear, Inc._ v. _Adkins_, 395 U.S. 653 (1969), in which the much eroded doctrine of licensee estoppel was finally put to rest. The question of "actual controversy," and hence subject matter jurisdiction, before this Court for review has nothing to do with licensee estoppel; there was no question of the existence of an "actual controversy" in _Lear_ because _Lear_ originated in a state court as an action for payment of royalties withheld in breach of a license agreement.

Lear did not enlarge or diminish the scope of the subject matter jurisdiction of the District Court. More to the point, the Supreme Court's elimination of the doctrine of licensee estoppel in _Lear_ does not frustrate a bargained-for provision in a license agreement not to terminate the agreement before a limited (in this case, two years) time, particularly where, as here, that provision is part of an

overall settlement of litigation. As stated in Aro Corp. v. Allied Witan Co., supra, 531 F.2d at 1373:

> "Lear does not require that the courts answer every beck and call of the fickle suitor whose transient affection is governed by such on-again, off-again strategies. The mantle of Lear ill befits him who would use and reuse the courts as pawns in a private game of varying design. The 'defender of the public interest' role is not available to him who would frustrate on whim the orderly conclusion of litigation."*

3. Escrow

It is also unnecessary for this Court to reach the merits of Warner-Jenkinson's and Kohnstamm's proposed escrow arrangement, because of the lack of subject matter jurisdiction and because of the substantial and dispositive policies favoring enforcement of settlement agreements. Consideration of the escrow proposal, however, exposes its unsound nature and unfair consequences.

a. The Controlling Decisions Do Not Require Deposit Of Royalties In Escrow Under The Circumstances Of This Case

Warner-Jenkinson and Kohnstamm contend that "under Lear, Inc. v. Adkins, supra, and cases following, the main-

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* Warner-Jenkinson's and Kohnstamm's purported distinction of the Sixth Circuit Court of Appeals decision in Aro (PB 24-26) ignores: this Court's decision in Tandy, supra; the Seventh Circuit Court of Appeals decision in Brunswick, supra; and the "limited" (A-291) two-year period of the non-termination provision agreed upon here (in Aro the patent wouldn't expire for over three years).

tenance of the status quo requires that royalties not be paid to Allied while the question of validity is being tried" (PB 27). In substance, appellants contend that Lear and its progeny "require" the escrow arrangement they seek. No such prejudicial and unfair result is required.

In Lear the Supreme Court held only that: (1) in an action by a licensor for royalties the licensee must be permitted to defend on the basis of the invalidity of the underlying patent; and (2) a licensee who is defending against an action brought by the licensor is not estopped to contest validity and can avoid the payment of royalties while challenging the validity of the licensed patent. That this is what Lear stands for has been confirmed by the Supreme Court, and by the Courts of Appeals for this Circuit and elsewhere. Blonder-Tongue v. University Foundation, 402 U.S. 313 (1971); Painton & Company v. Bourns, Inc., 442 F.2d 216 (2 Cir. 1971); Troxel Manufacturing Co. v. Schwinn Bicycle Co., 465 F.2d 1253 (6 Cir. 1972) ("Troxel I"); Troxel Manufacturing Co. v. Schwinn Bicycle Co., 489 F.2d 968 (6 Cir. 1973), cert. denied, 416 U.S. 939 (1974) ("Troxel II").

Neither Lear nor the decisions subsequent to Lear held that a licensee who stops paying royalties to the licensor can force the licensor to bear the cost of litigation, while at the same time retaining the benefits of the license and depriving the licensor of his statutory rights

to an injunction and to adequate damages when the patent is held valid. Furthermore, neither Lear nor subsequent decisions have held that parties can ignore obligations incurred in settlement of litigation.

One of Warner-Jenkinson's and Kohnstamm's claims is for restitution of royalties already paid to Allied Chemical (Complaint, Prayer for Relief, ¶ C, A-12). There is no authority which supports such a claim; an identical claim was rejected in Troxel I, supra, 465 F.2d at 1257, where the Court held that Lear did not alter the well established rule against restitution of royalties.

If Warner-Jenkinson and Kohnstamm are allowed to pay royalties into escrow, in breach of their Court-endorsed obligation to pay those royalties to Allied Chemical and without facing the threat of an injunction and statutory damages should the patents be held valid, the potential result will be substantially the same as that which led the Court in Troxel I to deny restitution of royalties (465 F.2d at 1257):

> "Rather than stimulating early litigation to test patent validity, such an interpretation of Lear would make it advantageous for a licensee to ... enjoy the fruits of his licensing agreement, and sue for repayment of royalties. ... When ... the threat of injunction no longer exists, a licensee would have little to lose in bringing an action to recover all the money he has paid in royalties on the ground of the invalidity of the patent. The licensee would have a chance to regain all the royalties paid while never having been subjected to the risk of an injunction. Such an interpretation of Lear would defeat one of the expressed purposes of the court in announcing that decision."

The escrow arrangement sought by Warner-Jenkinson and Kohnstamm would also discourage the licensing of patents; it would create "a continuous cloud over any payment of royalties," Troxel I, supra, 465 F.2d at 1257-58. As stated in Bahamas Paper Co. Ltd. v. Imperial Packaging Corp., 58 F.R.D. 355, 357 (S.D.N.Y. 1973), it is necessary for a licensee to repudiate his agreement before attacking the validity of the licensed patent:

> "It seems to me that the rule should be that the licensee is relieved of his obligation to pay royalties the moment he effectively repudiates the license agreement, thus forswearing its 'fruits' and exposing himself to the risks of injunction proceedings or other legal action by his licensor.
>
> * * *
>
> "If plaintiffs [licensor] establish that no such repudiation occurred in time to permit defendants [licensees] to assert patent invalidity as a defense to the first cause of action, judgment for plaintiff will be entered thereon and the balance of the complaint will be dismissed." (emphasis added)

Fundamental fairness requires that Warner-Jenkinson and Kohnstamm not be relieved from their obligations to pay royalties to Allied Chemical for the period in which they enjoy the competitive benefits of their licenses, and pass on such benefits to their customers. Kraly v. National Distillers and Chemical Corporation, 502 F.2d 1366, 1372 (7 Cir. 1974):

> "Anticipating the result reached by this court in Ransburg, the lower court presciently reasoned:
>
> > 'We do not, however, believe that our present finding of invalidity relieves the defendant of its obligation to pay

royalties for the period in which it was enjoying the benefit of its license and representing to the public that its product was licensed under the Kraly patent. So long as [the] defendant sought the protection of the patent, it is only equitable that it should discharge its royalty obligation under the license agreement. Once it ceased to represent that its product was licensed under the patent, it had repudiated the license agreement and assumed the risk of being found liable for infringing without receiving the concomitant commercial benefit of being a licensee.'

* * *

"The application of such equitable principles by the district court with respect to this issue was eminently correct."

As elaborated in Morton-Norwich Products, Inc. v. International Salt Co., 183 USPQ 748 (N.D.N.Y. 1974),* this equitable balance was not changed by Lear. In Morton-Norwich the licensee suspended royalty payments and sued the licensor for a declaration that the licensed patent was invalid. The licensor counterclaimed, inter alia, for patent infringement on the theory that the licensee's suspension of royalties was a breach of the license agreement. In denying the licensee's motion to dismiss the infringement counterclaim, the Court stated (183 USPQ at 748-51):

"Morton [the licensee] contends that the infringement charge is insufficient as a matter of law because the withholding of royalties pending the outcome of validity litigation was judicially sanctioned in Lear v. Adkins, 395 U.S. 653, 162 USPQ 1 (1969), and hence, it is asserted, International [the licensor] cannot use the nonpayment to declare a breach.

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* Not reported in F.Supp.

"At the core of Lear is a balancing of the equities among licensor, licensee and the public interest. To permit a licensee, as in this case, to enter into a license agreement after presumably good faith bargaining and receive the benefits of the inventor's investment in money, time and talent, and on the next day institute an action seeking a judgment declaring the patent invalid while at all times during the litigation withholding from the licensor the agreed upon consideration certainly does not score high on the scales of equity. Nor would the payment of the first installment of royalties due before the institution of an action change the situation. The licensor, having granted the right to use his presumptively valid invention, should not be cut off from the reward he has bargained for absent the circumstances set forth in Lear.

* * *

"In summary, I have concluded that it would be inappropriate to extend the scope of Lear to such a point that the licensee would be in a 'heads I win--tails you lose' situation. The shield that licensees would enjoy were Lear so extended might encourage more validity litigation, but at too high a price. The licensor or patentee, in the bargaining process, would have to compensate for this loading of the scales against him. Since an invitation would be extended to the licensees to immediately, or very soon after the issuance of the license, withhold payment, he must bargain for higher royalties. It would also seem logical that he would issue licenses most sparingly since he is not likely to get any money until validity is declared. If his patent is declared invalid, issuing large numbers of licenses would do little or nothing to line his pocket in any event. If his patent is held to be valid, he can easily make up for the loss of income during the period of litigation by higher royalties and damages for infringement. Even if he prices himself out of the market as a result of such demands, the federal policy of the wide dissemination of patented ideas is being frustrated. These considerations, coupled with the inherent inequity of such an extension of Lear compel the result herein." (footnotes omitted)

Warner-Jenkinson's and Kohnstamm's reliance (PB 26) on Atlas Chemical Industries, Inc. v. Moraine Products, supra, is misplaced; nowhere in Atlas is there a statement that the license agreement was not breached or repudiated by the licensee's resort to the escrow arrangement and, as later elaborated by the author of the Atlas opinion, Chief Judge Phillips, in PPG Industries, supra, 530 F.2d at 705:

> "In Atlas Chemical, the plaintiff-licensee brought suit to declare the patent invalid. The licensee placed the royalty payments in escrow during the period the action was pending. We held that since Lear allows a party freedom from royalty payments during a patent validity action, the fact that the payments were placed in escrow does not change the result. Escrow payments were held to be tantamount to nonpayment.
>
> "We held the Atlas Chemical agreement voidable under Lear...." (emphasis added)

Significantly, none of the authorities cited by Warner-Jenkinson and Kohnstamm supports their application for an order providing that the withholding of royalty payments, whether by escrow or otherwise, would constitute full performance of royalty obligations undertaken in settlement of earlier litigation. Escrow was denied in the Milton Roy decision, supra, so heavily relied on by Warner-Jenkinson and Kohnstamm.

b. Deposit Of Royalties In Escrow Would Be Prejudicial And Fundamentally Unfair To Allied Chemical

Warner-Jenkinson and Kohnstamm contend that the escrow arrangement will "preserve the status quo" (PB 26-32)

and is required for "fairness to all" (PB 32). This ignores the fact that the escrow arrangement will give Warner-Jenkinson and Kohnstamm their bargained-for fruits of the licenses, without making timely payments to Allied Chemical. Furthermore, it ignores the fact that Warner-Jenkinson and Kohnstamm also seek (A-307 to A-323) an order that the withholding of royalties from Allied Chemical will not breach the license agreements entered into in settlement of the earlier litigation -- with the result that Allied Chemical will be forced to bear the cost of litigation and will be denied its statutory right (35 U.S.C. § 283) to enjoin Warner-Jenkinson and Kohnstamm from making, using or selling Red 40 when Allied Chemical's patents are sustained.

The potential for abuse which would be created by Warner-Jenkinson's and Kohnstamm's proposal is vividly portrayed in the following example posited in Arnold & Goldstein, "Life Under Lear," 48 Tex.L.Rev., 1235, 1245 (1970):

> "Client is in the process of building a 40,000,000-dollar plant, which when completed will infringe a newly-issued process patent. Notice of infringement and proffer of license is received from the patent owner. Lear teaches the infringer: Negotiate the license and simultaneously draft the complaint for declaratory judgment of invalidity and noninfringement. The parties meet and execute the license. As soon as the signatures are affixed to the license so that Client is insulated from fear of an injunction against use of its 40,000,000-dollar plant, pull from the pocket the complaint. Be courteous and always a gentleman of honor. When you serve the complaint upon the licensor whose signature is not yet dry and tell him that you are

on the way to the courthouse (the jurisdiction of the state courthouse seems more likely) to file the complaint, tell him also that you will be happy to stipulate a thirty-day extension of time for him to answer, if he needs it. Can Lear's implied suggestion of this tactic really be the law?"

Warner-Jenkinson's and Kohnstamm's contention as to the alleged lack of prejudice also ignores the fact that the proposed escrow-without-breach arrangement will force Allied Chemical to the cost of litigation while denying Allied Chemical, whose patents are being infringed, the statutory right to (35 U.S.C. § 284):

> "... damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the Court.
>
> "... the Court may increase the damages up to three times the amount found or assessed."

Georgia-Pacific Corp. v. U.S. Plywood-Champion Papers Inc., 446 F.2d 295, 300 (2 Cir. 1971), cert. denied, 404 U.S. 870 (1971), is the landmark case in this Circuit as to the calculation of a "reasonable royalty." In Georgia-Pacific the patent owner was awarded a royalty of 22.4%. More recently, in Tektronix, Inc. v. United States, 188 USPQ 25, 31 (Ct.Cl. 1975),* the Court followed the reasoning of Georgia-Pacific and held that a "reasonable royalty" was 27.5%. In Spound v. Mohasco Industries, Inc., 534 F.2d 404 (1 Cir. 1976), cert. denied, ____ U.S. ____, 45 U.S.L.W. 3280 (U.S. Oct. 12, 1976), the Court awarded damages almost

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* Not reported in F.Supp.

four times the royalty established by the previous license. Allied Chemical should not be denied its right to demonstrate that a "reasonable" royalty for invasion of its valuable patent rights is in excess of the 17-1/2% royalty arrived at in settlement of the earlier litigation.*

In summary, Warner-Jenkinson and Kohnstamm should not be permitted to contest the validity of Allied Chemical's patents assured that they can enjoy the benefits of the licenses during the litigation and never face the prospect of an injunction or a realistic assessment of damages if they fail. Far from preserving the "status quo," such an inequitable result will give appellants every advantage and will leave Allied Chemical with none. The parties will be in the position where Allied Chemical cannot win and appellants cannot lose. As stated in 1971 by the late Judge Richard W. McLaren, of the Northern District of Illinois, while Director of the Justice Department's Antitrust Division, 31 BNA's Patent, Trademark & Copyright Journal, A-1 (June 10, 1971):

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* In addition, if Warner-Jenkinson and Kohnstamm breach their License Agreements and force Allied Chemical to the cost of litigation, Allied Chemical should have the opportunity to prove that it is entitled to treble damages because of appellants' willful and deliberate infringement. 35 U.S.C. § 284.

"Unfairness to patentees could flow from the possible implication of *Lear*--with which we disagree as a matter of law--that a patent licensee may be able to continue to enjoy the benefits of a patent license while at the same time challenging the patent's validity.... The language proposed [a proposed bill to restate and reform the patent laws] would make clear that nothing inheres in the law of patent conveyancing which negates the usual state contract law dealing with such matters as repudiation, anticipatory breach, and failure of consideration."

Warner-Jenkinson and Kohnstamm seek to utilize the escrow arrangement as a vehicle for escaping their settlement obligations and renewing the earlier litigation. As most recently stated in *Aro Corp.* v. *Allied Witan Co.*, *supra*, 531 F.2d at 1370, 1374, where the Court of Appeals for the Sixth Circuit affirmed a judgment ordering specific performance of a license agreement entered into in settlement of earlier litigation:

"In 1971 Aro instituted suit against Allied, alleging infringement of its U.S. Patent No. 2,950,775. Allied filed a counterclaim, seeking declaratory judgment of non-infringement of any valid claim and alleging unfair-competition and anti-trust violation. Pursuant to settlement, the complaint and counterclaim were dismissed without prejudice by Order dated March 25, 1974.

* * *

"Citing the interests of justice, the court granted Aro's motion for reinstatement of the case on the court's docket, enjoined Allied from not complying with the agreement, and again dismissed the complaint and counterclaim without prejudice.

* * *

"We find no reason in equity or in law why the settlement should not be enforced by an injunction against Allied's failure to comply with

the license agreement herein. Accordingly, the order of the district court is affirmed. Costs of the appeal are assessed against the appellant. The motion for attorneys' fees and additional costs is denied."

Warner-Jenkinson and Kohnstamm obligated themselves, in settlement of the earlier litigation, to perform in accordance with clauses in their License Agreements which preclude them from terminating those agreements for two years. They should not be given immunity from the consequences that would routinely flow from their breach of those obligations. As the Court stated in Ransburg Electro-Coating Corp. v. Spiller & Spiller, Inc., 489 F.2d 974, 978 (7 Cir. 1973), when holding that a settlement agreement should be enforced:

> "Although the federal patent policy prevails over 'the technical requirements of contract doctrine' (395 U.S. at 670, 89 S.Ct. at 1911), we believe that such policy must occupy a subsidiary position to the fundamental policy favoring the expedient and orderly settlement of disputes and the fostering of judicial economy. To allow a subversion of the deeply instilled policy of settlement of legitimate disputes by applying the federal patent policy as enunciated in Lear would effectively strip good faith settlements of any meaning. The vehicle of settlement would be a useless item if contracts, such as the one here, were subject to invalidation after they were consumated. We think the federal patent policy should not be carried so far...."

IV. CONCLUSION

Warner-Jenkinson's and Kohnstamm's appeal is without merit. Judge Frankel's August 13, 1976 Order and

Judgment should be affirmed in all respects. The royalties paid into the Court should be ordered paid to Allied Chemical, with interest at the rate of 6%.

Respectfully submitted,

November 22, 1976

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<u>Warner-Jenkinson & Kohnstamm</u>
v.
<u>Allied Chemical</u>

Dear Paul:

We have discovered a typographical error at page 31 of the brief we served in this matter last Monday. The word "not" was inadvertently omitted from the 6th line from the bottom, after the word "are."

To correct this error we have substituted corrected pages 31-32 in the briefs filed with the Court of Appeals. Enclosed are three such substitute pages for insertions in the briefs we delivered to you last week.

Sincerely yours,

Bill

William J. Gilbreth

WJG:tn
Enc.